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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION

RENZ D. JENNINGS
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COMMISSIONER

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IN THE MATTER OF THE COMPETITION)
IN THE PROVISION OF ELECTRIC)
SERVICES THROUGHOUT THE STATE OF)
ARIZONA.)

DOCKET NO. U-0000-94-165

NOTICE OF FILING

Staff hereby gives notice of filing of its request for comments on electric industry restructuring. Staff's request for comments and its February 22, 1996 cover letter have been mailed to participants in the Commission's restructuring task force as well as the parties in this docket.

Respectfully Submitted this 23rd day of February, 1996.

Arizona Corporation Commission

DOCKETED

FEB 23 1996

DOCKETED BY

SS

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Original and ten (10) copies
of the foregoing filed this
23rd day of February, 1996,
with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Copies of the foregoing were
hand-delivered this 23rd day
of February, 1996 to:

Chairman Renz Jennings
Commissioner Marcia Weeks
Commissioner Carl J. Kunasek
Paul A. Bullis

1 Copy of the foregoing was mailed
this 23rd day of February to:
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35 DEMING NM 88031
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37 CONTINENTAL DIVIDE ELECTRIC COOPERATIVE
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1 DIXIE ESCALANTE RURAL ELECTRIC ASSOCIATION
CR BOX 95
2 BERYL UT 84714
3 GARKANE POWER ASSOCIATION INC
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5 MOHAVE ELECTRIC COOPERATIVE INC
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RENZ D. JENNINGS
CHAIRMAN

MARCIA WEEKS
COMMISSIONER

CARL J. KUNASEK
COMMISSIONER



JAMES MATTHEWS
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

February 22, 1996

Dear Colleague:

The Commission established Docket No. U-0000-⁹⁴95-165 to investigate restructuring of the electric industry. Phase I of that investigation concluded in October 1995 with the Report of the Working Group on Retail Electric Competition. That report, among other things, identified some options, discussed advantages and disadvantages of those options, and reviewed implementation issues for the various options considered.

Phase II of the Commission's investigation is focused on receiving comments on the enclosed questions. You are invited to file your written comments in Docket Control at the Commission by May 24, 1996.

Following a review of the comments, Staff may develop a proposal on retail competition and may hold one or more workshops to discuss specific issues.

At present, we anticipate that the third phase of the investigation will involve Commission consideration of options on restructuring.

If you have any questions, please call David Berry at (602) 542-0742, Kim Clark at (602) 542-0824, or Ray Williamson at (602) 542-0828. We are looking forward to receiving your comments.

Sincerely,

Gary Yaquinto
Director
Utilities Division

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REQUEST FOR COMMENTS ON ELECTRIC INDUSTRY RESTRUCTURING

In May 1994, the Commission began its investigation of electric industry restructuring including the introduction of retail competition in electricity markets. During 1995, the Commission Staff conducted workshops and task forces with utilities, commercial and industrial consumers, independent power producers, residential consumers, labor, environmental groups, investors, low income agencies, and others. In October 1995, the Staff issued a progress report identifying some options, advantages and disadvantages of those options, and issues in carrying out those options.

The Commission Staff is now considering whether and how to develop a proposal for introducing retail competition in the electric industry. Among the options are:

- ◆ a pilot program to help evaluate the implementation of competition and to help develop a subsequent restructuring proposal;
- ◆ full competition as quickly as possible, with or without divestiture of vertically integrated utilities into distribution, transmission, and generation companies;
- ◆ phased-in competition; and
- ◆ retaining regulated monopoly service, perhaps with performance based ratemaking.

To assist us in evaluating options, we would like to obtain information and opinions from a wide range of interested parties.

The introduction of competition should meet several general objectives. These are outlined below.

Objectives

1. *Encourage the benefits of retail electric competition.* Competitive markets have demonstrably resulted in economic progress and efficiency. They foster innovation and work to hold prices down. In addition, competitive markets are responsive to customer demands. They also allow consumers to choose among suppliers and products or services. These kinds of benefits may be achievable through competition in the provision of electricity.
2. *Limit the potential harm to utilities and utility investors.* Utilities, who have offered service as monopolies for many decades, may be at great financial risk if they are forced to compete for customers.
3. *Enable a wide range of consumers to participate in a competitive market.*
4. *Limit the potential for decreases in electric system reliability.*

5. *Limit the potential for market impediments such as: a) exertion of market power by utilities which blunts competitive forces, and b) high transaction costs for market participants.*
6. *Encourage a variety of market developments.* There is the potential for many innovative solutions to problems that will arise if regulated monopolies are partially or completely replaced by a competitive market. Our purpose is to let the market reveal these solutions rather than to assume perfect foresight and impose solutions from the outset. Areas in which innovative solutions may occur include: contract development, interconnection arrangements, spot market development, and creating or unbundling services and pricing them competitively.
7. *Promote renewable resources.* Renewables allow Arizona to hedge against uncertain fossil fuel prices. Further, a renewables program can help bring down the costs of renewables.
8. *Protect important public programs.* These public programs are for environmental protection, renewable resource development, low income customer assistance, increased energy efficiency, and safe nuclear power plant decommissioning. Such programs could be jeopardized by competition, and means to protect them should be encouraged.
9. *Shield consumers who do not or cannot participate in the competitive market from rate increases attributable to competition.*

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We seek comments on two sets of issues.

I. How can the objectives listed above be measured? Please propose specific methods for measuring progress in meeting these objectives.

II. If a pilot program were implemented, how should it be implemented? We are seeking specific proposals on implementing the activities listed on Attachment A in a pilot program. Your suggestions could be formulated as tariffs or rules which would then be implemented by the Commission and by utilities, other suppliers of electricity, and consumers. *In addition to commenting on how a pilot program might work, you may also indicate how restructuring after the pilot might work or how other options could be implemented.*

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Please submit eleven copies of your written responses to:

DOCKET CONTROL
Docket No. U-0000-94-165
ARIZONA CORPORATION COMMISSION
1200 WEST WASHINGTON
PHOENIX, ARIZONA 85007

by May 24, 1996.

Background information may be found in the *Report of the Working Group on Retail Electric Competition*, dated October 5, 1995, filed in Docket No. U-0000-94-165. If you have any questions, please call David Berry, Ray Williamson, or Kim Clark at (602) 542-0742, (602) 542-0828, and (602) 542-0824, respectively.

ATTACHMENT A

QUESTIONS REGARDING ELECTRIC INDUSTRY RESTRUCTURING

Please answer the following questions for a pilot program. Your suggestions could be formulated as tariffs or rules which would then be implemented by the Commission and by utilities, other suppliers of electricity, and consumers. *In addition to commenting on how a pilot program might work, you may also indicate how restructuring after the pilot might work or how other options could be implemented.*

- A1. **Affected Utilities.** Which utilities should open their markets to competition?
- A2. **Scope of Restructuring.**
- a. How much of the utilities' markets should be opened to competition?
 - b. Which consumers should be allowed to shop around for power and energy? Consider both geographic areas and consumer classes.
 - c. Should utility customers served under existing contracts be eligible to participate in the competitive market prior to expiration of the existing contracts?
 - d. If divestiture were undertaken, how should it be accomplished?
- A3. **Term of Restructuring.**
- a. When should competition start?
 - b. If competition is in the form of a pilot or phase-in, how long should the pilot or phases run? Please describe the phases of a phase-in. Please consider that many larger customers of utilities are currently under contract and may not be able to shop around until those contracts expire.
 - c. If competition is in the form of a pilot, how can the term of the pilot be set so as to avoid discouraging long term contracts signed under the pilot?

A4. **Services Available on a Competitive Basis.** Which services should be available in a competitive market?

- ◆ Distributed energy services at market based rates (serving multiple consumers located in proximity, and not requiring transmission service from others); this is distinct from on-site self generation for just one consumer.
- ◆ Central station generation services at market based rates (generation serving one or more consumers located at a distance from consumers and requiring transmission service).
- ◆ Other services described in Sections A5, A6, A7, and A8.
- ◆ Other services (please describe).

A5. **Necessary Services.** Utilities and perhaps other parties will have to address the services listed below. Please indicate how these services should be offered, measured (metered), and priced on an unbundled basis.

- ◆ distribution service
- ◆ transmission service
- ◆ supplemental generation service
- ◆ imbalance service¹ (including accounting for losses)
- ◆ back-up (standby) service
- ◆ voltage control
- ◆ other ancillary services necessary for maintaining system reliability
- ◆ scheduling of supplies and demands
- ◆ repairs/consumer complaints
- ◆ other necessary services -- please describe

A6. **Market Center Services.** The market may benefit from the services listed below. Please indicate how these services should be offered and priced.

- ◆ title transfer
- ◆ transaction confirmation
- ◆ establishing credit standards
- ◆ invoicing
- ◆ dispatching of transmission/generation
- ◆ exchanges/swaps
- ◆ interruption notification
- ◆ imbalance trades

¹ Imbalance service applies in cases where the consumer takes more or less power or energy than scheduled.

A7. **Spot Market Services.** The market may benefit from the services listed below. Please indicate how these services should be offered and priced.

- ◆ electronic bulletin boards for spot transactions/prices
- ◆ power pooling services
- ◆ coordination with futures/options markets

A8. **Transmission Service.** For a competitive market to work, utilities owning transmission facilities must provide transmission service. Please indicate how the following objectives would be met:

- ◆ services must be provided consistent with FERC tariffs.
- ◆ utilities must accept power delivered to their transmission systems by other suppliers and offer wheeling services comparable to services they provide to themselves.
- ◆ all sellers supplying consumers must have interconnection agreements with owners of necessary transmission facilities.

A9. **Recovery of Stranded Investment.** Please indicate how the recovery (if any) of stranded investment should be accomplished. Address each of the following issues:

- a. The definition of stranded investment.
- b. The fraction of stranded investment which should be recovered.
- c. How the Commission will determine the amount of stranded investment, taking into account: revenues under traditional tariffed rates (or existing special contracts); actual utility revenues from customers who obtain discounted rates or obtain service from others; increases in net revenues from wholesale sales and additional retail sales, including the effects of price elasticity of demand; increases in the value of assets due to new pricing or competition; mitigation of stranded investment; and other relevant factors.
- d. Preliminary estimates of the magnitude of stranded investment (please provide supporting analyses).
- e. The proper ratemaking treatment of negative stranded investment.
- f. From whom stranded investment should be recovered.
- g. The mechanism for recovery of stranded investment.
- h. The time period over which stranded investment is to be recovered.
- i. How utilities can mitigate stranded investment.

A10. Recovery of Costs of Commission-Mandated Utility Low Income, DSM, Environmental, Renewables, and Nuclear Power Plant Decommissioning Programs ("Mandated Programs").

- a. How shall costs of mandated programs be recovered from participants in the competitive market?
- b. How shall the magnitude of the costs of mandated programs be determined?

A11. Encouragement of Renewables.

- a. How shall renewables be encouraged in a competitive environment? Please discuss such mechanisms as a requirement that x percent of energy sold in the competitive market must come from solar resources.
- b. How could progress in encouraging renewables be measured?
- c. How could a renewables program be enforced by the Commission?

A12. Pooling of Generation and Centralized Dispatch of Generation or Transmission.

- a. Should pooling of generation or centralized dispatch of generation or transmission be mandatory or voluntary?
- b. What technical requirements will be necessary to ensure reliable and efficient use of generation and transmission resources? Please propose specific requirements, if possible.

A13. Non-Public Service Corporations. How shall non-public service corporations such as municipal utilities be involved in a competitive market? For example, the service territories of Arizona utilities not regulated by the Commission may not be open to competition and Arizona utilities not regulated by the Commission may not be able to compete for sales in the service territories of the utilities identified in Section A1. Alternatively, an Arizona utility not regulated by the Commission may voluntarily participate in a competitive program if it makes its service territory available to competing sellers and if it agrees to all of the requirements of the Commission's competitive program.

A14. Conditions for Returning to Utility Service After the Conclusion of a Pilot Program. If a pilot were adopted, please indicate what conditions are appropriate for returning to utility service after the conclusion of the pilot.

A15. Conditions for Returning to Utility Service. Please indicate what conditions (if any) are appropriate for returning to utility service if a competitive market is on-going.

A16. Administrative Requirements.

- a. A utility may require consumers obtaining generation from another entity to adhere to reasonable scheduling notification requirements, accept reasonable delivery points, adhere to reasonable metering requirements, and accept reasonable remote control requirements for interruptions or other purposes. Please specify what you consider to be reasonable.
- b. How should the utilities identified in Section A1 notify their customers of the adoption of a competitive program by the Commission?

A17. Impacts on Other Utility Customers. Please indicate how adverse impacts on rates or service quality for utility customers not participating in the competitive market could be minimized.

A18. Reporting Requirements for All Sellers of Electricity to End Users. Please indicate what reporting requirements (to the Commission) are appropriate and who should file reports.

A19. Certificates of Convenience and Necessity. Please comment on whether competitive sellers who supply electricity to an end user must obtain a Certificate of Convenience and Necessity from the Commission (unless the seller already has an applicable Certificate). Please describe whether any conditions on the certificate would be necessary.